



## CRS Report for Congress

# U.S.-Latin America Trade: Recent Trends

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### Summary

Since Congress passed Trade Promotion Authority (TPA) legislation in August 2002 (P.L. 107-210), the United States has entered into free trade agreements (FTAs) with Chile, the Dominican Republic, and Central American countries, and Peru. The United States has also concluded FTAs with Colombia and Panama, which await congressional action.<sup>1</sup> Talks on the region-wide Free Trade Area of the Americas (FTAA), by contrast, have stalled. The 110<sup>th</sup> Congress may consider implementing legislation for one or both of the pending bilateral agreements. This report provides an analytical overview of U.S.-Latin American trade data and trends in support of congressional interest in U.S.-Latin American trade relations. It will be updated.

### Developments in U.S.-Latin American Trade

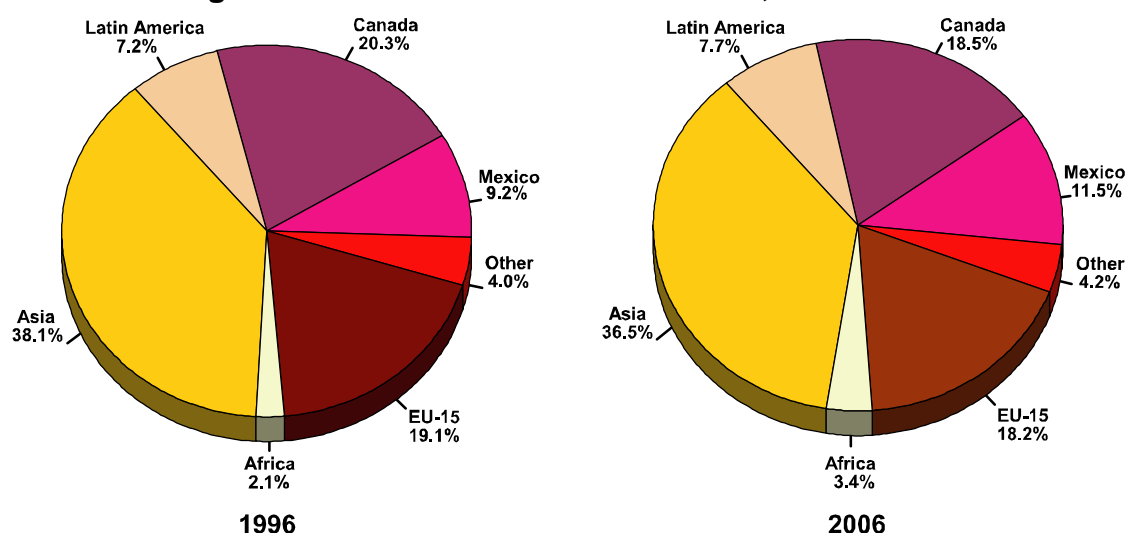
Trade is one of the driving issues in contemporary U.S.-Latin America relations. Although not the largest, Latin America is the fastest growing U.S. regional trade partner, with the exception of Africa, which has had strong export growth based largely on the recent rise of petroleum prices. Between 1996 and 2006, total U.S. merchandise trade (exports plus imports) with Latin America grew by 118% compared to 96% for Asia (driven largely by China), 95% for the European Union, 239% for Africa, and 104% for the world. There are two import caveats. First, most of the growth in Latin American trade was due to Mexico, the largest U.S. regional trade partner in dollar terms. Second, U.S. imports grew more than twice as fast as exports. As seen in **Figure 1**, from 1996 to 2006, Latin America trade, excluding Mexico, grew from 7.2% to 7.7% of U.S. world trade, whereas Mexico's share expanded from 9.2% to 11.5%, reflecting these growth trends (individual country data appears in the **Appendix**.)

In 2006, U.S. trade worldwide continued the expansion begun after the 2001 global economic downturn. U.S. exports to the world grew by 14.5% in 2006, following a 10.5% increase in 2005. Among the larger trade partners, U.S. exports grew by 31.7% to China, 16.9% to South Korea, 14.5% to the European Union, 8.7% to Canada, and 7.5% to Japan.

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<sup>1</sup> CRS also has individual reports on all these agreements and TPA.

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**Figure 1. U.S. Direction of Total Trade, 1996 and 2006**

U.S. exports to Latin America grew by 15.8% in 2006, with export growth to Mexico, the second largest U.S. export market, expanding by 11.5%. U.S. export growth to some of the other larger Latin American markets in 2006 was all positive. Exports expanded briskly to Venezuela (40.6%), Chile (30.8%), Brazil (24.7%), Colombia (21.8%), Argentina (17.1%), and Costa Rica (13.9%). These trends reflect strong national economic growth experienced in much of Latin America. Exports to major Latin American trading blocs varied, expanding by 31.7% to the Andean Community (AC), 22.1% to the Southern Common Market (Mercosur), 17.8% to the Caribbean Community (Caricom) countries, but only 16.0% to the CAFTA-DR countries.

On the import side, continued strong growth of the U.S. economy resulted in increased demand for foreign goods, despite a falling U.S. dollar. U.S. imports from the world rose by 10.9% in 2006. Among the larger U.S. trading partners, imports expanded by 18.2% from China, 7.3% from Japan, 7.0% from the EU, 4.7% from South Korea, and 4.5% from Canada. Imports from Latin America rose by 13.3% on average and by 41.8% from Chile, 16.6% from Mexico, 15.7% from Peru, 9.4% from Venezuela, 8.2% from Brazil, and 4.5% from Colombia. Imports from Argentina actually declined by 13.0%. For most of the high growth countries, the dollar value of U.S. imports rose because of precipitous price increases in commodities, particularly petroleum and metals, earnings growth that likely also contributed to the region's increased demand for U.S. exports.

Mexico made up 11.5% of U.S. trade in 2006 and, as seen in the **Appendix**, it is the largest Latin American trading partner, accounting for 60% of the region's trade with the United States. These trends point to the long-term and increasing economic integration between the two countries, in part the result of their deliberate trade liberalization efforts, including the North American Free Trade Agreement (NAFTA). By contrast, the rest of Latin America together makes up only 7.7% of U.S. trade, leaving room for significant growth. Brazil, for example, has the second largest economy in Latin America, is the second largest Latin American trading partner of the United States, but accounts for only 8.2% of U.S. trade with Latin America, or one-seventh that of Mexico.

The region's increasing importance as a U.S. trade partner is an important trend in globalization. In the United States, total merchandise trade (exports plus imports) has become an increasingly important component of the economy, growing from 7.9% of gross domestic product (GDP) in 1970 to 21.4% in 2006. Since the 1980s, many Latin American countries have adopted trade liberalization as part of broader economic reform programs. Average Latin American import tariffs have declined from 45% in 1985 to 9.3% by 2002, although the rates varied among countries from a high of 16.4% in Mexico to a low of 6.0% in Costa Rica.<sup>2</sup> Trade reform has not been embraced with equal vigor, however, by all countries and U.S. exports are not all treated equally under varying liberalization schemes. Also, trade reform has been delayed or even reversed in some countries when faced with economic instability or changing political philosophy.

Tariff rates have fallen throughout Latin America and so only partially explain differences in economic integration among countries. Two other simple measures of trade openness appear in **Table 1** and point to cases where trade reform may be more apparent than in others. For example, Mexico, Chile, and Costa Rica are considered among the early and more successful reformers of trade policy. For each in 2005, total merchandise trade was more than 50% of GDP. By contrast, total merchandise trade accounted for a much smaller 23% of GDP in Brazil and 38% in Argentina, two countries generally associated with lagged or incomplete trade reforms.

**Table 1. Measures of Trade Openness for Seven Top U.S. Trading Partners in Latin America**

	Trade in Goods (% of GDP) 1990*	Trade in Goods (% of GDP) 2005*	Per Capita Imports from U.S. 1990**	Per Capita Imports from U.S. 2005**	Per Capita GDP 2005#
Mexico	40.7%	56.1%	\$328	\$1,588	\$5,993
Chile	66.0%	61.6%	\$126	\$411	\$5,729
Costa Rica	70.6%	81.6%	\$352	\$791	\$4,505
Dom. Rep.	69.2%	45.5%	\$254	\$541	\$3,089
Colombia	35.4%	37.7%	\$62	\$195	\$2,157
Brazil	15.2%	23.3%	\$34	\$131	\$3,574
Argentina	15.1%	38.0%	\$36	\$119	\$8,131

**Data Sources:** Calculations by CRS from the following data sources.

\*Sum of merchandise exports and imports divided by GDP, per national account data as reported in IMF, *International Financial Statistics*.

\*\*IMF, *International Financial Statistics* and U.S. Department of Commerce. #GDP - gross domestic product in constant 2000 year prices per U.N. Economic Commission on Latin America and the Caribbean. *Statistical Yearbook for Latin America and the Caribbean 2006*.

The trade-to-GDP ratio, however, may reflect other than trade policy factors. The ratio can be smaller for those countries with large domestic markets that are less trade dependent. This may be the case for Brazil, which has a large domestic manufacturing

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<sup>2</sup> Data provided by Inter-American Development Bank.

base. Conversely, the ratio may be larger for small economies that are relatively more trade dependent, such as the Dominican Republic, which as part of its pursuit of trade liberalization, has also developed a manufacturing export base tightly linked to the United States. Still, the lower trade-to-GDP ratio for Brazil and Argentina is telling.

The per capita dollar value of goods a country imports from the United States is another specific measure of trade openness (**Table 1**). Brazil and Argentina increased their per capita dollar value of U.S. imports from 1990 to 2005, but to only a fraction of that for Mexico, Costa Rica, Chile, and the Dominican Republic. Mexico's high figure again reflects an evolving trade liberalization policy dating to the mid-1980s and its historical ties with the U.S. economy. Costa Rica's high per capita consumption of U.S. goods reflects a similar relationship that has seen enormous growth in recent years, including strong intra-industry, production-sharing trade. Brazil and Argentina, by contrast, have higher restrictions on trade with the United States and other countries, in part reflecting trade policy and trends defined by the regional customs union, Mercosur, and a tradition of industrial policy and broader diversification of trading partners.<sup>3</sup> Differences in income can also be an important factor explaining variations in consumption of U.S. imports, but per capita gross domestic product (GDP) data shown in **Table 1** suggest that they do not stand out in this case.

The trade data suggest that there may be room for growth in trade between South America and the United States. Trade policy changes, at the margin, could provide some of the basis for growth in U.S.-South American trade, but they may not be immediately huge given South America's historically small interest in the United States and the limited size of their markets. Still, many economists believe that lowering barriers to U.S. trade with South America and guaranteeing market access may generate long-term trade and investment opportunities. Similarly, access to high quality U.S. exports and the large U.S. market presents attractive opportunities for Latin American countries, as well.

## U.S.-Latin America Trade Relations

The United States and Latin America have pursued trade liberalization through multilateral, regional, and bilateral negotiations, with mixed results. In part this reflects their divergent priorities. For many Latin American countries, reducing barriers to agricultural trade is top of the list for a successful agreement. This goal includes reducing market access barriers such as tariffs and tariff rate quotas (TRQs), domestic subsidies, and the use of antidumping provisions. Although there are many other issues, agriculture has played a big part in slowing progress in the World Trade Organization (WTO) Doha Development Round and the Free Trade Area of the Americas (FTAA).<sup>4</sup> In contrast, the United States has made clear its unwillingness to address most agricultural and antidumping issues in a regional agreement like the FTAA to preserve its bargaining

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<sup>3</sup> For more, see CRS Report RL33258, *Brazilian Trade Strategy and the United States* and CRS Report RL33620, *Mercosur: Evolution and Implications for U.S. Trade Policy*, by J. F. Hornbeck.

<sup>4</sup> In fact, some see the stalemate over the FTAA as due in part to the United States and Brazil being unable to address protectionist policies that most affect the other's main exports. See Abreu, Marcelo de Paiva. *The FTAA and the Political Economy of Protection in Brazil and the US*. Inter-American Development Bank. Washington, DC, March 2006. pp. 1-4, 61-62.

leverage in the WTO against other subsidizing countries like the European Union and Japan. Latin American countries have their own sensitive issues and a particular concern for easing its subsistence agricultural sectors slowly toward trade liberalization.

In addition to market access, the United States focuses its trade negotiating goals on areas where it is most competitive, such as services (financial, tourism, technology, professional, among others); intellectual property rights (IPR); government procurement; and investment. Not surprisingly, these are areas where many Latin American countries are more reluctant to negotiate. Hence, there is a near reversal of priorities that has slowed the progress of comprehensive agreements at the multilateral and regional levels, reflecting inherent differences between developed and developing countries.

The result in the Western Hemisphere has been the proliferation of bilateral and plurilateral agreements. The United States has implemented FTAs (NAFTA, CAFTA-DR, and Chile), passed implementing legislation for Peru, and signed FTAs with Colombia and Panama that await congressional action. U.S. FTAs are permanent, unlike unilateral benefits extended under the Andean Trade Preference Act (ATPA), the Caribbean Basin Trade Partnership Act (CBTPA), and the Generalized System of Preferences (GSP), which must be periodically reauthorized by Congress. Brazil, as the major regional economy not in an agreement with the United States, has moved ahead separately by adding associate members to Mercosur, supporting Venezuela's accession to Mercosur as a full member, and leading in the formation of the South American Community of Nations. Although these are neither deep nor comprehensive trade arrangements, they do signal a political will to consolidate regional bargaining interests in juxtaposition to the U.S.-backed FTAA.

Two clear challenges emerge from this picture. First, Brazil and the United States appear to be having problems moving off their respective positions, which seems likely to continue to stall action on the FTAA. The addition of Venezuela and possibly other countries with less than sympathetic attitudes toward the United States as full Mercosur members could solidify this standoff. Recent nationalizations of key industries and other efforts to increase the role of the state in managing the economies of Venezuela, Bolivia, and Ecuador also do not bode well for broadening support for market-based trade solutions. Second, multiple FTAs, by definition, promote a cumbersome trading system with each FTA having its own rules of origin (to deter transshipment of goods) and related customs administration and enforcement requirements that can complicate investment and trading decisions.

Resolving this situation will not be easy and may require progress on multiple fronts. For example, it seems that without advancement in agricultural issues at the WTO, moving ahead with a comprehensive FTAA is unlikely. A less comprehensive FTAA may not be considered worth expending the political capital needed to approve it and offers a far less compelling alternative to a multilateral agreement on economic grounds. Therefore, the FTAA may not emerge in the near future, despite the logical solution that a hemispheric-wide agreement presents to integrating a disparate web of cumbersome subregional FTAs. Together, these circumstances suggest that a new chapter of trade negotiations between developed and developing countries awaits, which may take patience and new creative solutions to navigate. Despite these difficulties, the debate has not been abandoned because trade issues are unavoidably part of larger concerns with economic reform, development, and globalization, all themes at the forefront of U.S. and Latin America foreign economic policy agendas.

### Appendix: U.S. Merchandise Trade with Selected Latin American Countries and Groups, 1996-2006

Country	1996	1998	2000	2002	2004	2005	2006	% Change 2005-2006	% Change 1996-2006
<b>U.S. Exports (\$ billions)</b>									
Brazil	12.7	15.2	15.4	12.4	13.9	15.4	19.2	24.7%	51.2%
Venezuela	4.8	6.5	5.6	4.5	4.8	6.4	9.0	40.6%	87.5%
Chile	4.1	4.0	3.5	2.6	3.6	5.2	6.8	30.8%	65.9%
Colombia	4.7	4.8	3.7	3.6	4.5	5.5	6.7	21.8%	42.6%
Dom. Rep.	3.2	4.0	4.4	4.3	4.4	4.7	5.4	14.9%	68.8%
Argentina	4.5	5.9	4.7	1.6	3.4	4.1	4.8	17.1%	6.7%
Costa Rica	1.8	2.3	2.4	3.1	3.3	3.6	4.1	13.9%	127.8%
Honduras	1.6	2.3	2.6	2.6	3.1	3.3	3.7	12.1%	131.3%
Guatemala	1.6	1.9	1.9	2.0	2.6	2.8	3.5	25.0%	118.8%
Peru	1.8	2.1	1.7	1.6	2.1	2.3	2.9	26.1%	61.1%
Other	11.7	14.4	13.4	13.4	21.4	19.1	22.9	19.9%	95.7%
Total LAC*	52.5	63.4	59.3	51.7	61.5	72.4	89.0	22.9%	69.5%
Mexico	56.8	79.0	111.7	97.5	110.8	120.4	134.2	11.5%	136.3%
Total Lat. Amer.	109.3	142.4	171.0	149.2	172.3	192.8	223.2	15.8%	104.2%
CAFTA-DR	9.6	12.4	13.6	14.1	15.8	16.9	19.6	16.0%	104.2%
Caricom	4.4	5.0	5.4	5.0	5.8	7.3	8.6	17.8%	95.5%
Mercosur	18.6	22.4	21.0	14.6	18.2	20.8	25.4	22.1%	36.6%
Andean Comm.	12.8	15.5	12.2	11.4	13.2	16.4	21.6	31.7%	68.8%
World	625.1	680.5	780.4	693.1	818.8	906.0	1,037.1	14.5%	65.9%
<b>U.S. Imports (\$ billions)</b>									
Brazil	8.8	10.1	13.9	15.8	21.2	24.4	26.4	8.2%	200.0%
Venezuela	12.9	9.3	18.7	15.1	24.9	34.0	37.2	9.4%	188.4%
Chile	2.3	2.5	3.2	3.8	4.7	6.7	9.5	41.8%	313.0%
Colombia	4.3	4.7	7.0	5.6	7.3	8.9	9.3	4.5%	116.3%
Dom. Rep.	3.6	4.4	4.4	4.2	4.5	4.6	4.5	-2.2%	25.0%
Argentina	2.3	2.3	3.1	3.2	3.8	4.6	4.0	-13.0%	73.9%
Costa Rica	2.0	2.8	3.6	3.1	3.3	3.4	3.8	11.8%	90.0%
Honduras	1.8	2.6	3.1	3.3	3.7	3.8	3.7	-2.6%	105.6%
Guatemala	1.7	2.1	2.6	2.8	3.2	3.1	3.1	0.0%	82.4%
Peru	1.3	2.0	2.0	1.9	3.7	5.1	5.9	15.7%	353.8%
Other	7.8	7.6	11.7	10.8	18.4	24.3	26.3	8.2%	237.2%
Total LAC*	48.8	50.4	73.3	69.6	98.7	122.9	133.7	8.8%	174.0%
Mexico	74.3	94.7	135.9	134.7	155.9	170.1	198.3	16.6%	166.9%
Total Lat. Amer.	123.1	145.1	209.2	204.3	254.6	293.0	332.0	13.3%	169.7%
CAFTA-DR	10.4	13.7	16.1	16.0	17.7	18.1	18.6	2.8%	78.8%
Caricom	2.9	2.6	4.0	4.0	7.7	9.9	10.4	5.1%	258.6%
Mercosur	11.4	12.6	17.3	19.2	25.5	29.8	30.9	3.7%	171.1%
Andean Comm.	21.1	17.8	30.0	24.9	40.4	54.0	59.8	10.7%	183.4%
World	795.3	913.9	1,216.9	1,161.4	1,469.7	1,673.5	1,855.1	10.9%	133.3%

**Source:** Table created by CRS from U.S. Department of Commerce data.

\* LAC = Latin America and the Caribbean, except Mexico.